Comments of the Footwear Distributors & Retailers of America (FDRA) on Negotiating Objectives Regarding Modernization of the North American Free Trade Agreement With Canada and Mexico

USTR-2017-0006

June 12, 2017

On behalf of the Footwear Distributors & Retailers of America (FDRA), we appreciate the opportunity to submit comments to the Administration on the negotiating objectives regarding the North American Free Trade Agreement (NAFTA) with Canada and Mexico.

Founded in 1944, FDRA represents the entire footwear industry from small family-owned footwear businesses to global companies. It also serves the full supply chain of the industry from research, design, and development, to manufacturing and distribution, to retailers selling to global consumers. In all, FDRA supports over 130 companies and 250 brands, or 80 percent of total U.S. footwear sales, making it the largest and most respected American footwear trade association. In the 73-year history of the association, FDRA has supported the footwear industry as its voice in Washington, D.C. and around the globe.

NAFTA has been a reality for more than 23 years. Since its enactment, the agreement has strengthened U.S. ties with Mexico and Canada, two of our nation's largest trading partners, and today the U.S. exports more American-made products to these two nations than any other country in the world. NAFTA provides significant benefits to American consumers and retailers on a variety of products by delivering greater choice and value, which is particularly important to working class families that must spend a significant portion of their income on everyday necessities. It also strengthens many American manufacturers that depend on regional supply chains for certain inputs needed for the U.S. production of goods.

At the same time, FDRA recognizes that the agreement was negotiated decades ago and could be strengthened and updated to better address issues that have arisen in today's global economy, from digital trade and E-Commerce to intellectual property protection to modern customs procedures to labor and environmental standards. One of the many benefits of the U.S.-led Trans-Pacific Partnership (TPP), which included Canada and Mexico, was that it would have modernized these and other areas to reflect 21st century trade. FDRA applauds the Administration for identifying, as potential opportunities to enhance NAFTA, a number of areas covered in TPP. We encourage the Administration to use this opportunity to build upon the substantial work that has been done over the past decade of TPP negotiations with our important trading partners Canada and Mexico.

While the NAFTA agreement negotiated a quarter century ago has not kept pace with many emerging issues in 21st century trade, its limits have also precluded U.S. footwear companies and consumers from realizing the benefits of the agreement. Today, 99 percent of footwear is imported, with more than 2.3 billion pairs delivered to the U.S. market each year. The shift away from the large-scale domestic footwear production of the early 20th century occurred decades ago. This reflects the U.S. transition over the past century from investing resources in producing

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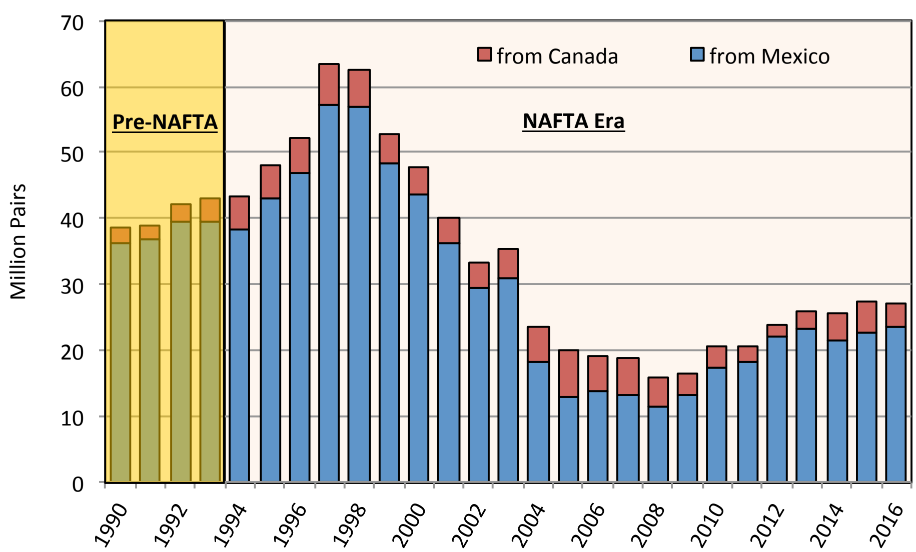
items of lower value to investing resources in producing items of increasingly higher value and in sectors in which the U.S. has a strong comparative advantage globally – sectors ranging from industrial machinery to chemical production to automobiles. This investment in high-value manufacturing has supported good-paying U.S. production jobs and facilitated large gains year-over-year in the productivity of U.S. workers.

At the same time, footwear production, despite being a sector of comparatively lower value, still requires significant investments in capital and a large workforce committed to learning the intricate skills of shoemaking, which can involve more than a 100 touches to make a basic pair of leather dress shoes. As a result, global supply chains remain incredibly important to delivering value, choice, and innovation to U.S. consumers, and they support good-paying U.S. footwear jobs including those in retail, design, innovation, logistics, marketing, warehousing, and administration. Though our industry utilizes global supply chains, the value of every pair of shoes originates here in the U.S.

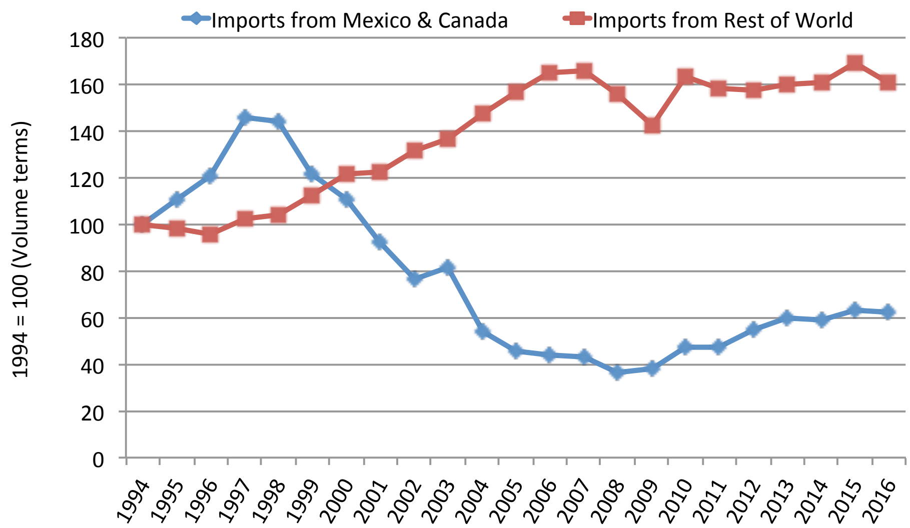
Increasing footwear production throughout North America could provide real benefits for these U.S. footwear workers as well American individuals and families that buy shoes, since products would be made closer to consumers, allowing faster delivery times and greater customization. Today the overwhelming majority of footwear for the U.S. market still comes from just three countries – China, Vietnam, and Indonesia. Despite having NAFTA in place for more than two decades, the industry has seen little growth in footwear from Canada and Mexico (see Figure 1 and Figure 2).

Figure 1: U.S. Footwear Imports from Mexico and Canada See Little Growth with NAFTA



Source: USITC

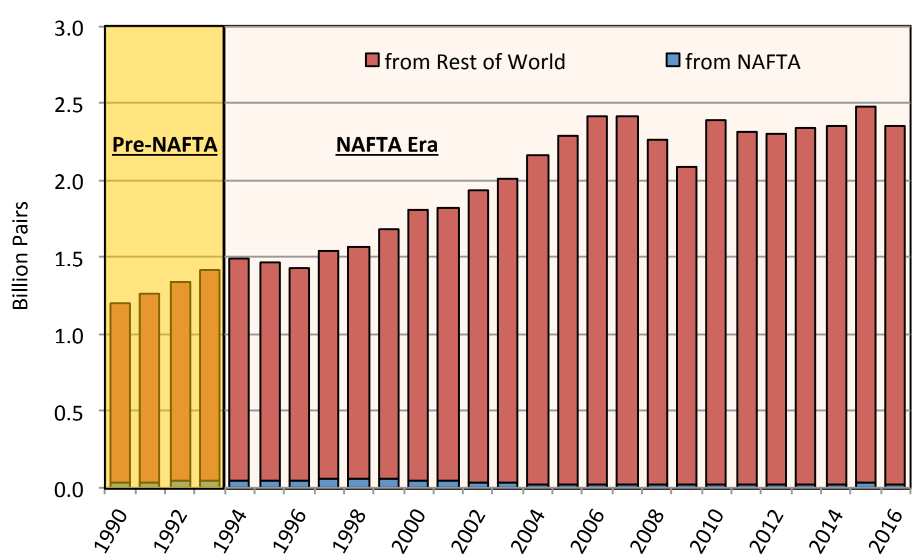
Figure 2: U.S. Footwear Imports from Mexico and Canada See Little Growth with NAFTA



Source: USITC

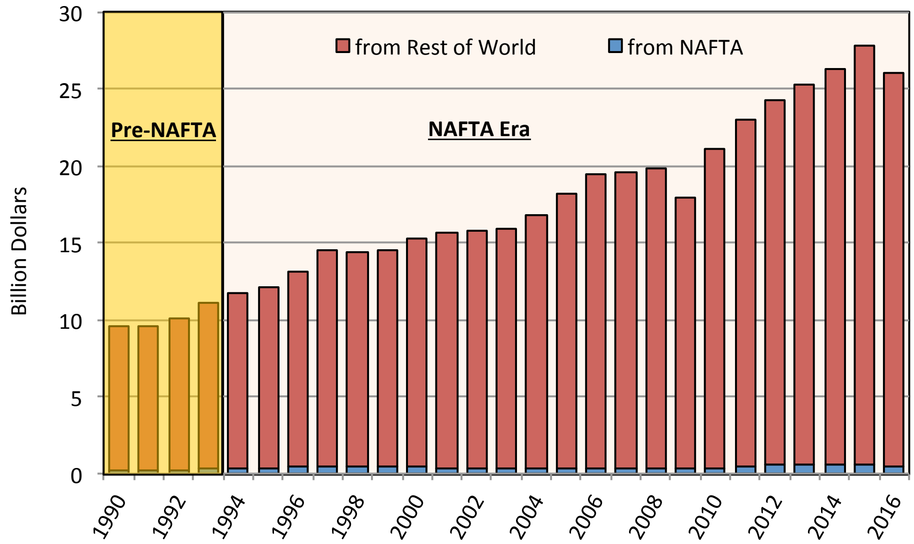
In fact, Mexico and Canada supplied only 1.1 percent of pairs and 1.8 percent of dollars of total U.S. footwear imports in 2016 (see Figure 3 and Figure 4). For U.S. footwear imports, the two countries supplied $463.0 million and 26.9 million pairs in 2016, while total imports were $25.6 billion and 2.34 billion pairs in 2016.

Figure 3: Mexico and Canada Still a Small Share of U.S. Footwear Import Market



Source: USITC

Figure 4: Mexico and Canada Still a Small Share of U.S. Footwear Import Market



Source: USITC

The U.S. footwear industry has seen such small growth in opportunities under NAFTA, because the trade agreement established a very restrictive rule of origin. NAFTA does not represent the 21st century trade model for the U.S. footwear industry that has been achieved through later U.S. free trade agreements, including but not limited to the Central America-Dominican Republic FTA (CAFTA-DR), United States-Colombia FTA, and United States-Korea FTA (KORUS).

As a reminder, there are two rules of origin for footwear under NAFTA. The first is that a change in classification into Chapter 64 of the Harmonized Tariff Schedule of the United States (HTS) from any other HTS chapter creates an article eligible for the NAFTA preference. Under this element of the NAFTA rule, a shoe made in the United States with an imported outsole does not qualify for the preference because the outsole is classified in Chapter 64. Under the second rule a tariff change within Chapter 64 except from HTS subheadings 6401.10 through 6406.10 (complete footwear, "bean boot" bottoms, uppers and upper parts) from a subheading outside the group (footwear parts other than uppers upper parts, e.g., outsoles) is acceptable as long as 55 percent of the shoe's customs value is represented by materials originating in and processing undertaken in the United States, Canada or Mexico. Thus, footwear made in the United States, Canada or Mexico with uppers or upper parts from a fourth country does not qualify for the NAFTA tariff preference.

This limitation has greatly inhibited the ability of the footwear sector to develop in North America. A change in the NAFTA rule of origin would, we believe, enable FDRA members to seek producers in the region. Greater flexibility would allow companies to have access to important materials while building greater production capacity and increasing footwear manufacturing in North America.

FDRA believes that the rule of origin developed in the United States-Korea Free Trade Agreement (KORUS) offers a useful model for a renegotiated NAFTA. The basic KORUS footwear rule of origin is a change in classification to a subheading in Chapter 64 from any other subheading. That rule does not apply to all footwear. Footwear classified in 20 HTS subheadings are subject to the second NAFTA rule – a change in classification from outside 6401 through 6406.10 as long as a percent of the shoe's customs value is represented by materials and processing of United States, Canada or Mexico origin. Generally, the 20 subheadings cover protective footwear, rubber plastic footwear valued over $3.00 a pair, and athletic footwear with textile uppers valued over $12 a pair.

A NAFTA rule of origin modeled on the KORUS rule would encourage FDRA members to consider North American producers. The fact that footwear deemed trade sensitive would be subject to the current restrictive rule means that an increase in imports from Canada or Mexico likely would not cause injury to United States producers. Indeed, it is more likely that there will be an increase in cross-production sharing in the region.

Because of its very restrictive rules of origin, NAFTA has not resulted in an increase in regional footwear production. There is no guarantee that adopting a less restrictive rule will increase that production but there is a reasonable chance that it will do so. What is certain is that retaining the current restrictive rule of origin will not alter the status quo.

NAFTA covers a much wider variety of economic issues than rules of origin. However, for FDRA members, the fact that the existing rule of origin is so restrictive means that their interest in other NAFTA issues is secondary, and NAFTA has had very little impact on the majority of U.S. footwear companies. A relaxation in the origin rule could change that and FDRA members could begin to enjoy the many obvious benefits of NAFTA.

While FDRA supports allowing greater flexibility in the rules of origin for NAFTA and recognizes there are areas that could be updated to reflect 21st century trade issues, we believe that this agreement as it currently stands remains vital for the U.S. Today, NAFTA provides many key benefits to American manufacturers, retailers and consumers. Withdrawing from the agreement would be devastating to our economy and it would hurt the U.S. consumers on which we depend to support jobs in our industry.

FDRA stands ready to work with the Administration on this important issue and appreciates the opportunity to provide input on negotiating objectives for NAFTA.

Respectfully submitted,

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